

MEMORANDUM



TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

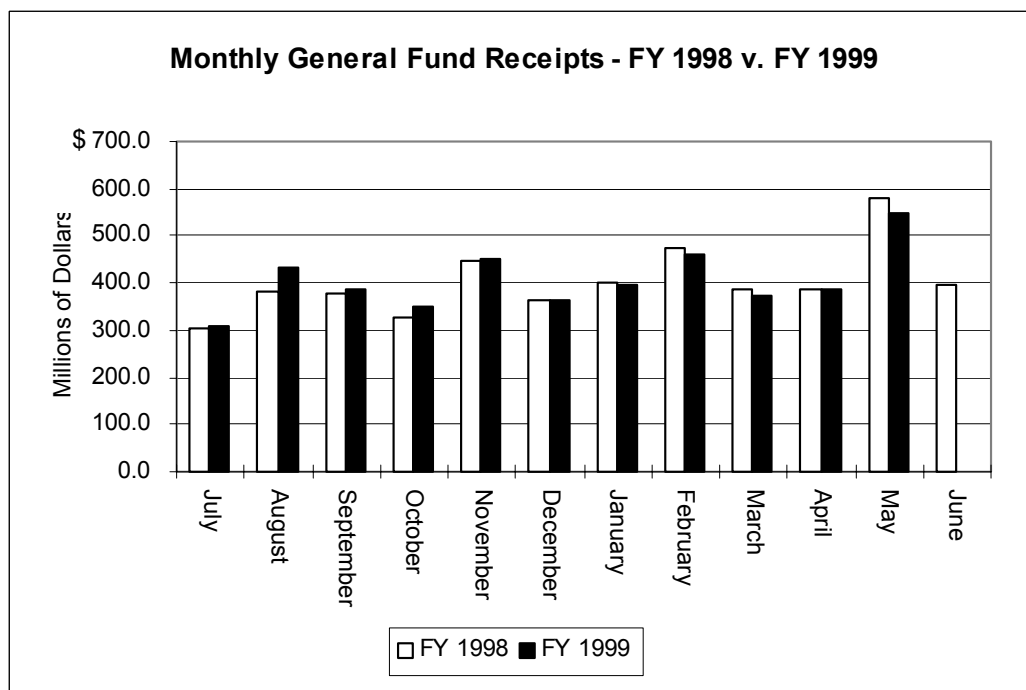
FROM: Dennis C. Prouty

DATE: June 1, 1999

General Fund Receipts Through May 31, 1999

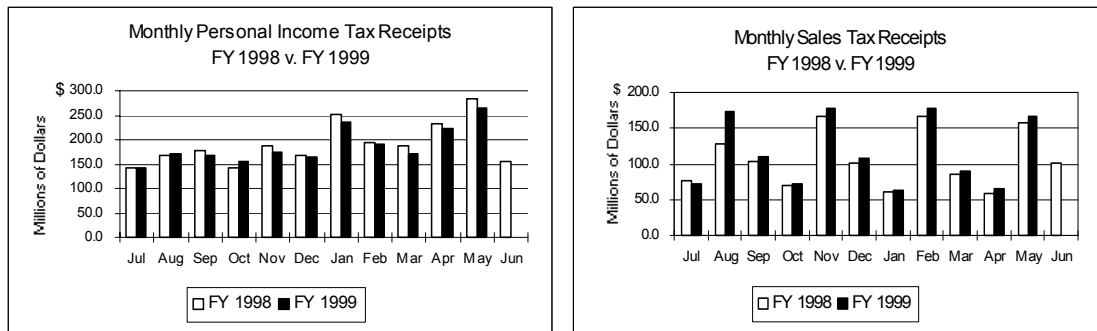
The attached spreadsheet represents total FY 1999 General Fund receipts, with comparable figures for FY 1998. These can be compared to the latest FY 1999 estimate (\$4.918 billion) set by the Revenue Estimating Conference (REC) on April 8, 1999. The estimate represents an increase of \$87.0 million (1.8%) compared to FY 1998.

The FY 1999 REC estimate includes all adjustments for the bills passing the 1998 General Assembly. The net effect of these bills was a reduction in FY 1999 General Fund revenues of approximately \$139.2 million. Adjustments for bills enacted by the 1999 General Assembly will be made during the next meeting of the REC.



FY 1999 Compared to FY 1998

Fiscal Year 1999 revenue growth increased by \$15.6 million (0.4%) compared to FY 1998. This is below the current REC estimate of 1.8% for FY 1999 primarily due to weaker income tax returns. Total May 1999 revenues decreased \$33.2 million (5.7%) compared to May 1998.



Gross personal income tax revenues received in May were \$18.7 million (6.6%) less than May 1998. Year-to-date growth in personal income tax is \$67.8 million (3.2%) less than FY 1998. Although FY 1998 withholding payments exhibited strong growth, the effect of the 10.0% income tax cut can clearly be seen in FY 1999 withholding tax receipts. The May growth rate was positive, increasing by 3.4% compared to May 1998. Year-to-date withholding receipts are \$6.8 million (0.4%) below the FY 1998 level. Withholding receipts are expected to reach the FY 1998 level by the end of the fiscal year.

Estimate payments decreased in May, posting a loss of \$6.1 million (26.5%) compared to May 1998. Year-to-date growth in estimate payments stands at \$11.3 million (3.7%) below FY 1998, and the continued weak performance since January has erased the exceptionally strong July and October growth.

The effect of increasing the personal credit from \$20 to \$40 can clearly be seen in income tax return payments. Return payments received in May were \$18.0 million (17.9%) less than May 1998. Year-to-date growth in return payments stands at \$49.8 million (18.7%) below FY 1998.

The REC FY 1999 income tax estimate of \$2.318 billion represents a projected increase of 1.3% compared to FY 1998.

Sales tax receipts in May were \$9.2 million (5.9%) greater than May 1998. Year-to-date growth in sales tax stands at \$101.6 million (8.7%) compared to FY 1998. Nearly one-third of the annual gain is due to the change in the method of local option tax payments. As directed by HF 729 (Local Option Taxes Administration Act), the Department of Revenue and Finance began making monthly rather than quarterly distributions. Because of passing the old quarterly payment date in August 1997, August 1998 receipts were approximately \$31.7 million greater than otherwise would be the case. This timing factor explains a significant portion of the year-to-date growth in sales tax revenues. The REC estimate for FY 1999 sales tax receipts is \$1.366 billion, which represents an increase of 7.4% compared to FY 1998.

Corporate income tax receipts in May were \$5.8 million (14.9%) less than May 1998. Estimate payments were the primary cause of the loss for May. Estimate payments received in May were \$7.9 million (22.2%) less than May 1998. Year-to-date corporate income tax payments are \$33.2 million (13.7%) above the FY 1998 level.

The REC projected FY 1999 corporate income tax receipts would total \$300.1 million, an increase of \$9.4 million (3.2%) compared to FY 1998.

Insurance premium tax receipts in May were \$21.2 million (75.5%) less than May 1998. This is due to the final payment date falling on the holiday weekend. It is expected that insurance premium tax receipts will recover in June upon the reflection of the May payment in June's receipts. Year-to-date insurance premium tax payments are \$63.6 million (20.6%) below the FY 1998 level.

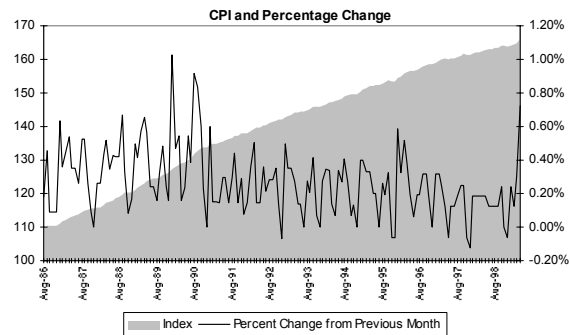
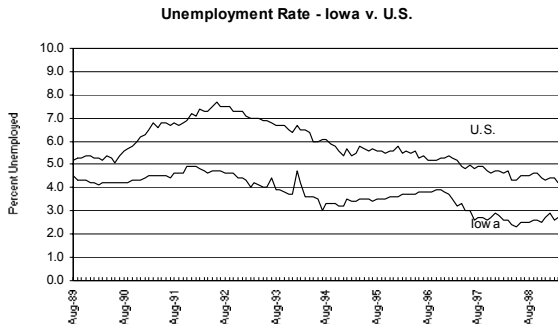
The REC projected FY 1999 insurance premium tax receipts would total 116.9 million, an increase of 8.0 million (7.3%) compared to FY 1998.

Racing and gaming receipts to the General Fund have reached their statutory cap of \$60.0 million. All racing and gaming receipts in excess of \$60.0 million are deposited in the Rebuild Iowa Infrastructure Fund. As a result, activity in these accounts has little direct impact on the General Fund for the remainder of the fiscal year. The REC estimated that \$102.1 million from this source would be deposited to the Infrastructure Account in FY 1999.

Status of the Economy

The seasonally adjusted percent unemployed for the State in April remained unchanged from the 2.7% rate in March. The unemployment rate a year ago was 2.4%. Iowa's total April employment registered 1,545,700, up from March's level of 1,536,800. The number of unemployed persons in Iowa stood at 42,300 in April, which is up from March's level of 42,200. The U.S. unemployment rate rose in April to 4.3%, up from March's 4.2% rate.

Consumer prices in April increased from March's level. The Consumer Price Index (CPI-U) through April 1999 was 166.2 (1983=100), which is 0.7% greater than March 1999 and 2.3% higher than one year ago. This is the single largest monthly increase since October 1990. Over half of the increase is due to an exceptionally large increase in retail gasoline prices in some parts of the country. The following series illustrate U.S. and Iowa unemployment comparisons and the CPI through April 1999.



Information related to State General Fund receipts is available electronically through the Fiscal Bureau's Electronic Publishing of Information System (EPI). If you have questions regarding this service, you may contact Glen Dickinson (515-281-4616) or Larry Sigel (515-281-4611).

GENERAL FUND RECEIPTS - FY 1999 vs. FY 1998						ESTIMATED GENERAL FUND RECEIPTS in millions of dollars			
July 1, 1998, through May 31, 1999, in millions of dollars						FY 98 Actual Compared to FY 99 REC Estimate			
	FY 1998	FY 1999	Year to Date		May	Actual	Estimate		
			FY 1999	% CHANGE	% CHANGE	FY 1998	FY 1999	% CHANGE	
Personal Income Tax	\$ 2,132.5	\$2,064.7		-3.2%	-6.6%	\$ 2,288.4	\$ 2,318.2	1.3%	
Sales Tax	1,171.2	1,272.8		8.7%	5.9%	1,271.8	1,366.0	7.4%	
Use Tax	229.7	232.0		1.0%	1.9%	243.0	248.8	2.4%	
Corporate Income Tax	243.0	276.2		13.7%	-14.9%	290.7	300.1	3.2%	
Inheritance Tax	102.7	81.4		-20.7%	-10.0%	109.8	86.6	-21.1%	
Insurance Premium Tax	80.1	63.6		-20.6%	-75.5%	108.9	116.9	7.3%	
Cigarette Tax	84.3	83.6		-0.8%	2.8%	94.6	92.6	-2.1%	
Tobacco Tax	5.6	6.0		7.1%	0.0%	6.1	6.6	8.2%	
Beer Tax	11.5	11.9		3.5%	0.0%	12.7	12.9	1.6%	
Franchise Tax	31.7	29.0		-8.5%	3.1%	36.4	38.5	5.9%	
Miscellaneous Tax	5.3	2.6		-50.9%	-75.0%	1.3	1.3	3.1%	
Total Special Taxes	\$ 4,097.6	\$4,123.8		0.6%	-7.0%	\$ 4,463.7	\$ 4,588.5	2.8%	
Institutional Payments	62.9	45.5		-27.7%	-7.1%	70.2	46.6	-33.6%	
Liquor Transfers:									
Profits	26.0	26.5		1.9%	20.0%	31.0	31.0	0.0%	
7% Gross Revenue	8.3	8.3		0.0%	0.0%	9.0	9.0	0.0%	
Interest	26.8	30.8		14.9%	13.6%	30.6	28.0	-8.5%	
Fees	57.1	52.6		-7.9%	-7.7%	65.4	59.0	-9.8%	
Judicial Revenue	39.9	42.9		7.5%	7.5%	42.9	43.9	2.2%	
Miscellaneous Receipts	54.8	58.6		6.9%	311.8%	58.1	51.9	-10.7%	
Racing and Gaming Receipts	60.0	60.0		0.0%	n/a	60.0	60.0	0.0%	
TOTAL RECEIPTS	\$ 4,433.4	\$4,449.0		0.4%	-5.7%	\$ 4,830.9	\$ 4,917.9	1.8%	